Employment
Development
Department
State of California

Arnold Schwarzenegger
Governor

August 5, 2004

Stan Kataoka
Manager, Service Analysis
Pacific Gas and Electric Company
P.O. Box 770000, Mail Code B8L
San Francisco, CA 94177-0001

Dear Mr. Kataoka:

On August 3, 2004 CalBIS staff, including myself, conducted an in-depth interview with the Operations Manager for Amy's Kitchen, Scott Reed. The purpose of the interview was to gather a firm understanding of the company's plans for growth and how CalBIS could help to, not only keep their current operations in California, but also capture their expansion. A joint purpose of the interview was to investigate the applicability of the PG&E Economic Development Rate in the retention and expansion of Amy's Kitchen. Following is background derived from our interview and our conclusions.

Background

Amy's Kitchen employs 700 people in Santa Rosa in the production of organic and vegetarian frozen meals. They are experiencing 15-20% annual growth and are poised to outgrow their existing facilities in 12 to 18 months. They need to add approximately 80,000 square feet of production space and plan to invest approximately $8 million in plant and equipment.

The need to grow has caused Amy's to evaluate their position in the market financially and geographically. They are posting a net profit of 2.5% to 3.0% of revenue, three to five times less than their competitors. Also, 70% of their market is in the eastern United States. These two factors have caused them to evaluate several operating scenarios including 1) expanding out of state while maintaining operations in Santa Rosa, 2) moving all operations out of state, and 3) expanding in Santa Rosa. The first scenario is daunting because of multiple plant management difficulties, but this solution would improve their bottom line by allowing them to operate in a lower cost environment and move production closer to the market. The second scenario is particularly attractive because of the potential to lower expenses across the board. Expanding in Santa Rosa is viewed by the company as being the least profitable alternative, albeit the least disruptive to the business and emotionally preferable to the native Californian owners.

Amy's management has investigated more than fifteen different alternative locations. They conducted research on their own, through out-of-state economic development organizations, and through real estate brokerages. Their site search has included Oregon, Texas, Colorado, Arizona, Carolinas, Virginia, and Mexico. They also reviewed the California cities of Modesto and Petaluma.

Through their research the company has learned it is paying two to three times more for electricity than they would incur in neighboring states. The amount paid for electricity consumption in California represents nearly 45% of the company's annual profit. High and increasing costs for fuel, raw materials, other utilities and workers' compensation has created an untenable situation for the company, prompting their serious consideration of relocation to other states.

Amy's Kitchen is working with the City of Santa Rosa as they investigate their local expansion opportunities. They have learned that the City will charge approximately $589,000 in permits and fees for the expansion. The company has worked to lower the fee estimates by revamping some manufacturing processes, but the fees still remain very high compared to the out-of-state locations. The City is currently considering a reduction or waiver of some of the fees, but a decision is not yet made. Amy's has recently been nominated for an award by the city for water conservation and wastewater reduction.

During the interview, CalBIS learned that there was a significant training program on-going at Amy's Kitchen. The company spends as much as $750,000 per year on training for language skills, leadership, safety, quality, and manufacturing process. As a result, CalBIS has requested the assistance of our sister program, the Employment Training Panel. They will meet with Amy's management to determine if California can partner in their training program with a cash reimbursement for training expenses.

Conclusions

California Business Investment Services feels that the risk of Amy's Kitchen completely divesting from California is credible. Our experience convinces us that they could reduce operation and labor overhead costs significantly, and also position themselves in superior logistical situation relative to their market. A doubling or tripling of their profit margin is well within reason. We would surmise that a substantial California incentive package would be necessary in order to level the playing field with the out-of-state locations even when accounting for moving costs and business disruption.

The economic development tools available for our use in this situation are very limited. We are hopeful that the City of Santa Rosa is able to provide some concessions on the permitting and development fees. Further, we are hopeful that our ETP colleagues will be able to structure a deal that will allow us to invest in the productivity of the workforce. We are not convinced that these two areas of opportunity will generate enough incentive or cost reduction to keep Amy's Kitchen and its 700 jobs in Santa Rosa. We believe that the PG&E Economic Development Rate would be material to the package of opportunity offered by California and material to Amy's Kitchen's decision to stay and expand in California. Therefore, we would like to include the Schedule ED rate incentive in our package of incentives to Amy's Kitchen and would support PG&E's request to the California Public Utilities Commission for an interim decision providing emergency rate relief for Amy's Kitchen.

CalBIS will keep you apprised of the progress made by the City and the Employment Training Panel. Please contact me at (916) 653-6112 if I can be of further assistance or offer additional information in this matter.

Sincerely,

Dave Freitas
Manager
California Business Investment Services